

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
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FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 1478

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E.O. 11652: N/A
TAGS: EFIN VE
SUBJECT: NEW INCOME TAX PROPOSAL TO AFFECT
FOREIGN BUSINESSMEN

1. AS THE DEPARTMENT IS AWARE, THE GOVERNMENT OF VENEZUELA HAS BEEN TRYING SINCE OCTOBER OF 1976 TO GET SOME SORT OF INCOME TAX LEGISLATION APPROVED BY THE CONGRESS. THIS EFFORT IS EXPECTED TO BE RENEWED THIS MONTH AS THE GOV PRESENTS A WATERED DOWN BILL TO THE RECONVENED CONGRESS. WE WILL BE REPORTING ON THE CONTENTS AND SIGNIFICANCE OF THE TAX PROPOSALS SEPARTELY.

2. OF IMMEDIATE IMPORTANCE TO THE UNITED STATES GOVERNMENT HOWEVER, IS THE FACT THAT THE PROPOSED INCOME TAX LEGISLATION CONTAINS A PROVISION FOR INCREASES IN TAXES ON FOREIGN BUSINESSMEN COMING TO VENEZUELA FOR BUSINESS REASONS. UNDER THE PROPOSED CHANGE, A US BUSINESSMAN (OR ANY OTHER FOREIGN BUSINESSMAN) VISITING VENEZUELA WOULD BE SUBJECT TO A TAX OF 20 PERCENT OF HIS SALARY FOR THE TIME HE SPENDS IN VENEZUELA. THUS A MAN WHO SPENDS TEN DAYS IN VENEZUELA AND RECEIVES \$100 A DAY WOULD BE TAXED \$200. THE PRESENT RATE IS 12 PERCENT IN THE CASE OF "NON-COMMERCIAL" PROFESSIONS, THE RATE RISES
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FROM 18 PERCENT TO 30 PERCENT.

3. PRESUMABLY, A BILATERAL TAX TREATY WITH VENEZUELA WOULD RESOLVE THE PROBLEM. AS THE DEPARTMENT KNOWS, WE PROPOSED SUCH A TREATY TO THE GOV DECEMBER 6 (77 CARACAS 11878) AND UNDERSTAND THAT IT IS BEING GIVEN FAVORABLE CONSIDERATION. NONETHELESS, NEGOTIATION OF SUCH A TREATY IS

A LENGTHY PROCESS AND DOES NOT HELP THE IMMEDIATE PROBLEM.
OTHER POSSIBLE COURSES OF ACTION WERE OUTLINED IN
EMBASSY'S LETTER OF FEBRUARY 21 TO THE OFFICE OF THE
LEGAL ADVISOR. IN THE MEANTIME WE ARE CONSULTING CLOSELY
WITH THE VENEZUELAN-AMERICAN CHAMBER OF COMMERCE.

4. WE PERCEIVE THE PROPOSED INCREASE IN TAXES ON FOREIGN
BUSINESSMEN AS A POTENTIAL MAJOR FACTOR AFFECTING WILLING-
NESS OF US BUSINESSMEN TO DO BUSINESS IN THIS MARKET.
GIVEN SERIOUS US BALANCE OF TRADE SITUATION AND DECLINE
IN US SHARE OF VENEZUELAN MARKET DURING RECENT YEARS,
EMBASSY RECOMMENDS TAX ISSUE BE RAISED DURING FORTHCOMING
PRESIDENTIAL VISIT. AT A MINIMUM, WE SHOULD PUSH FOR QUICK
ACCEPTANCE OF OUR PROPOSAL FOR NEGOTIATIONS ON BILATERAL
TREATY.
VAKY

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